



The City of San Diego

PROPOSED BUDGET



General Fund Revenues

Fiscal Year

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General Fund Revenues

The Fiscal Year 2013 General Fund revenue budget is \$1.1 billion, which represents an increase of \$20.4 million or 1.8 percent from the Fiscal Year 2012 Adopted Budget. General Fund revenues pay for essential City services including police, fire, refuse collection, library services, and park and recreation programs.

Table 1 illustrates the components of the 1.8 percent or \$20.4 million increase in General Fund annual revenue for Fiscal Year 2013.

Table 1: Fiscal Year 2013 General Fund Revenue Change

	Percent Change from FY 2012 Adopted Budget	Change (in millions)
Major Revenues	5.5%	\$ 40.6
Other Revenue Sources	(5.2)%	(20.2)
Total	1.8%	\$ 20.4

The General Fund Revenues section provides a detailed description of the revenue categories listed to the right on this page, including background information describing growth trends, economic factors, and methods of allocation affecting each revenue source. This information provides insight into the formulation of the Fiscal Year 2013 Proposed Budget for the General Fund revenues.

The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees account for 67.5 percent of the City's General Fund revenue in the Fiscal Year 2013 Proposed Budget. Changes in the local, State, and national economies can impact each of these revenue sources and trends, and their possible effects on the City's finances in Fiscal Year 2013 are outlined below. Other General Fund revenue sources are influenced by these same economic conditions as well as various other non-economic events, such as a fee change or the implementation of a new policy in an existing program.

The Fiscal Year 2013 Proposed Budget was based on Fiscal Year 2012 year-end projections and economic data through December 2011, the most recent information available at the time the proposed budget was prepared. Preparation of the Fiscal Year 2013 Proposed Budget incorporated an improved economic outlook when compared to previous years as evidenced by the increases in sales tax and TOT. While an improved outlook was incorporated, the economy still remains slightly unstable. General Fund revenues will continue to be monitored during Fiscal Year 2013 and, if necessary, the budget will be modified.

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General Fund Revenues

Volume II details the budgeted revenues that are generated by departments. Each revenue source generated by individual General Fund departments also fall under one of the revenue categories listed on the previous page and is discussed in this section of the budget document.

Table 2: Fiscal Year 2013 General Fund Revenues - \$1.15 Billion (in millions)

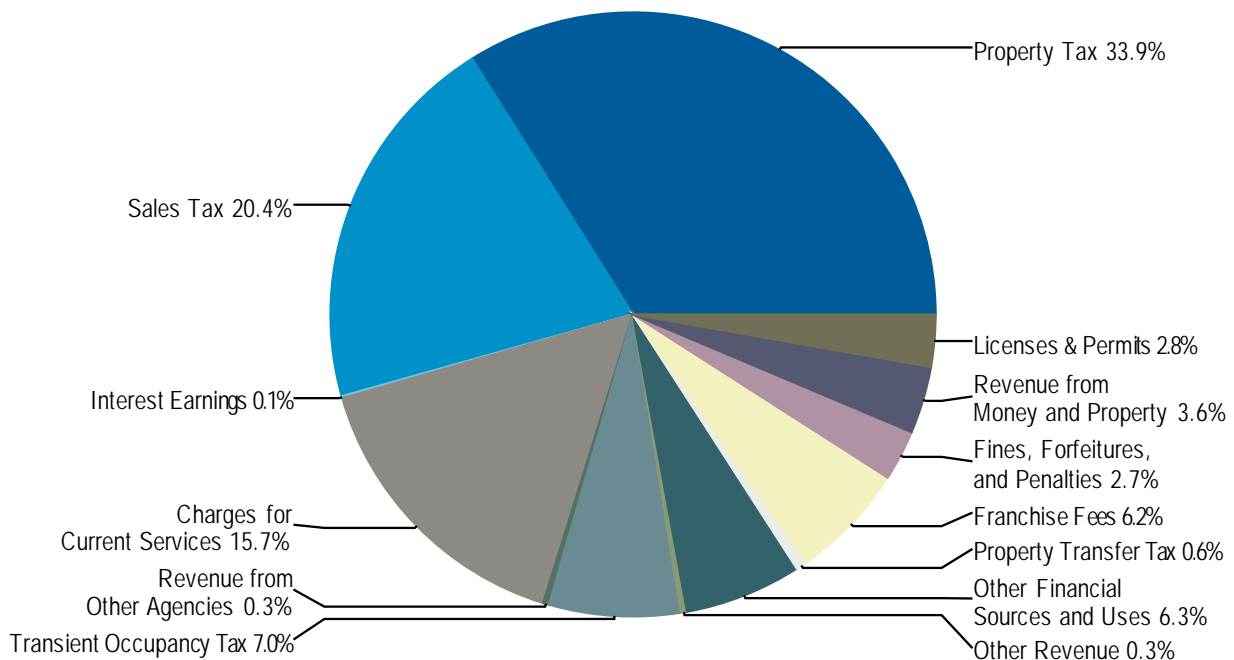
Revenue Category	FY 2011 Actual	FY 2012 Adopted Budget	FY 2013 Proposed Budget	FY 2012 - FY 2013 Change	Percent Change	% of Total General Fund Revenue
Property Tax	\$ 384.0	\$ 380.9	\$ 389.1	\$ 8.2	2.2%	33.9%
Sales Tax	209.1	211.6	234.4	22.8	10.8%	20.4%
Transient Occupancy Tax	73.4	74.8	80.5	5.7	7.6%	7.0%
Franchise Fees ¹	65.5	67.8	71.7	3.9	5.7%	6.2%
Property Transfer Tax	5.4	5.1	6.4	1.2	23.5%	0.6%
Safety Sales Tax ²	6.8	5.0	0.0	(5.0)	(100.0)%	0.0%
Motor Vehicle License Fees	6.9	3.3	0.0	(3.3)	(100.0)%	0.0%
Licenses & Permits	28.6	35.2	31.9	(3.4)	(9.5)%	2.8%
Fines, Forfeitures, and Penalties	31.5	37.7	31.1	(6.6)	(17.5)%	2.7%
Revenue from Money and Property	41.9	39.2	41.2	2.1	5.2%	3.6%
Interest Earnings	2.7	1.9	1.4	(0.5)	(28.3)%	0.1%
Revenue from Other Agencies	3.2	2.6	3.5	0.9	36.5%	0.3%
Charges for Current Services	155.0	157.8	180.4	22.6	14.3%	15.7%
Other Financial Sources and Uses	65.3	100.9	71.7	(29.2)	(28.9)%	6.3%
Other Revenue	3.7	2.8	3.8	1.0	36.1%	0.3%
Total	\$ 1,083.1	\$ 1,126.6	\$ 1,147.0	20.4	1.8%	100.0%

¹ The Fiscal Year 2013 Proposed Budget for Franchise Fees includes \$1.6 million in revenue related to the Police Department's vehicle towing program.

² For Fiscal Year 2013, Safety Sales Tax revenue will be recognized as a transfer in to the General Fund within the Other Financial Sources and Uses revenue category.

General Fund Revenues

Figure 1: Fiscal Year 2013 General Fund Revenues - \$1.15 Billion



San Diego's Economic Environment¹

Development of the Fiscal Year 2013 Proposed Budget incorporated an improved economic outlook, as compared to prior annual budgets based on the continuing trend of increases in consumer spending, a return of tourism and business travel, and reduced unemployment. The City first began seeing improvement within these three areas late in Fiscal Year 2011 and the trend has continued through Fiscal Year 2012.

The nation-wide recession that lasted from December 2007 to June 2009 dramatically impacted State and local revenues due to the unprecedented pace and scope of declines in economic drivers such as unemployment, housing, and consumer confidence. Consumer spending began to rebound in late Fiscal Year 2011 and this trend has continued during Fiscal Year 2012, resulting in increased transient occupancy and sales tax revenues. However, recovery has been slow and inconsistent from month-to-month for other indicators, such as local home prices, which has resulted in projections for property tax revenues received by the City to remain below pre-recession levels.

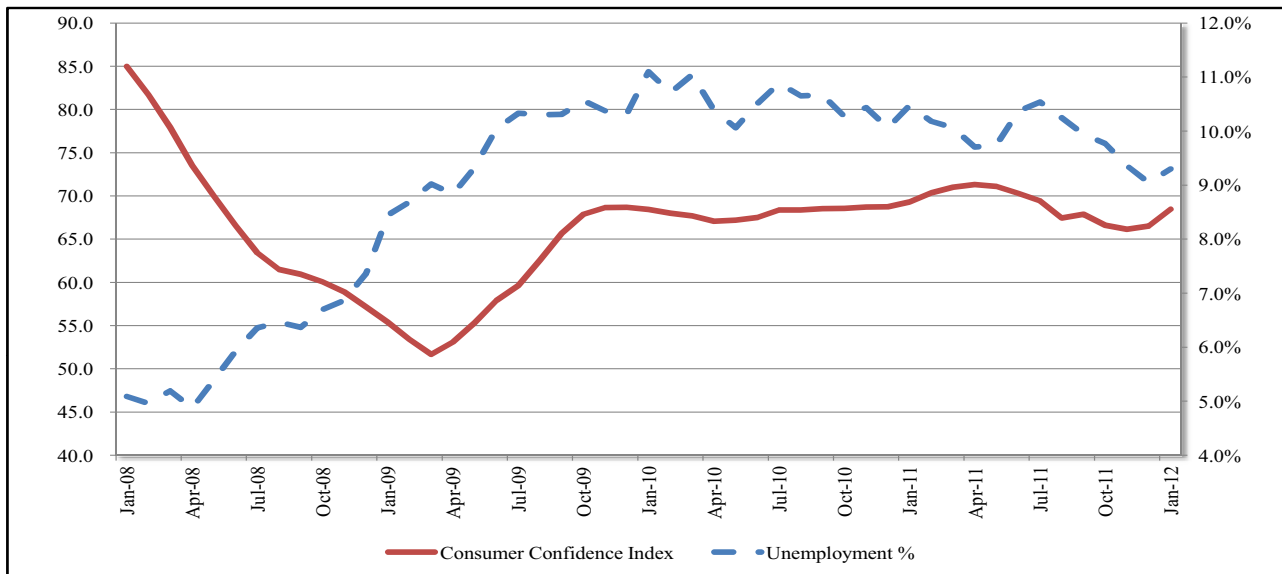
The main economic drivers that contributed to General Fund revenue decreases during Fiscal Years 2008 to 2010 were declining consumer discretionary spending and the overall decline in the housing market (home sales and prices). Consumer discretionary spending is greatly influenced by levels of unemployment and consumer confidence. At the onset of the economic recession in December

¹ The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, DataQuick Information Systems, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics.

General Fund Revenues

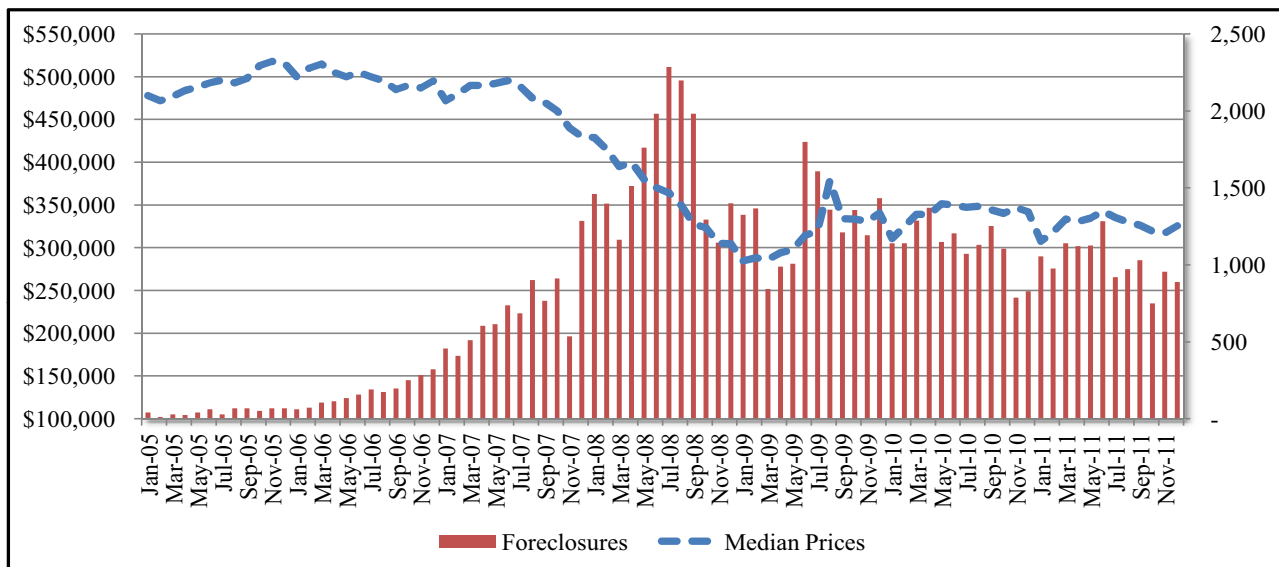
2007, the City's unemployment level was 4.8 percent, and increased rapidly to 11.1 percent in January 2010. Although still above average historical levels, the unemployment rate has decreased to 9.3 percent as of February 2012. Local consumer confidence declined 41.2 percent from the December 2007 index level of 87.8, to the lowest level in March 2009 of 51.7. Subsequently, consumer confidence has increased 31.2 percent to an index level of 67.8 as of January 2012.

Figure 2: San Diego Consumer Confidence and Unemployment



Source: California Employment Development Department, USD Index of Leading Economic Indicators

Figure 3: County of San Diego Monthly Median Home Price and Foreclosures



Source: DataQuick Information Systems, San Diego County Assessor/Recorder/Clerk

Countywide median home prices have increased from low levels in Fiscal Year 2009 and after stabilizing for several months have fluctuated some in recent months. The San Diego median home

General Fund Revenues

price as of December 2007 was \$495,000, which decreased to a low of \$284,435 in January 2009, and has subsequently increased to \$325,718 as of December 2011.

Development of the Fiscal Year 2013 General Fund revenue budget considers and incorporates a wide variety of economic data in an effort to accurately forecast revenue amounts. The following are some of the economic indicators and assumptions that were used in the preparation of the Fiscal Year 2013 Proposed Budget for the General Fund. In most cases, the indicators used to prepare the Fiscal Year 2013 Proposed Budget were as of December 2011.

- The Index of Leading Economic Indicators for San Diego County has increased 5.5 percent over the last twelve months (as of December 2011) from an index level of 110.7 to 117.1 (University of San Diego, Index of Leading Economic Indicators).
- San Diego County's consumer confidence index has decrease 3.0 percent over the past twelve months (as of December 2011) from an index level of 68.7 to 66.52 (University of San Diego, Index of Leading Economic Indicators).
- Consumer spending in the City of San Diego on taxable items for the prior twelve months, as of September 2011, increased 8.7 percent as compared to the prior year (MuniServices).
- San Diego's unemployment rate was 9.0 percent as of December 2011, a decrease of 1.1 percent from the 10.1 percent as of December 2010. Since development of the Fiscal Year 2013 Proposed Budget the City's unemployment rate has ticked up slightly to 9.3% as of February 2012.
- Home sales in San Diego for calendar year 2011 totaled 35,444, which is a decline of 3.3 percent from the 36,638 home sales in calendar year 2010. However, the total number of home sales in December 2011 increased 3.9 percent from the number of sales in December 2010 (San Diego County Assessor/Recorder/Clerk's Office).
- The median countywide home price as of December 2011 was \$325,718 which is a decrease of 4.8 percent from the December 2010 median home price of \$342,258 (DataQuick Information Systems).
- Countywide foreclosures in calendar year 2011 totaled 12,216 which is a decline of 9.3 percent from the 13,466 in calendar year 2010. Notices of default, an indicator of potential future foreclosure levels, totaled 22,101 in calendar year 2011, a decline of 11.0 percent from the 24,835 notices of default in calendar year 2010 (San Diego County Assessor/Recorder/Clerk's Office).
- The City's median income is forecasted to grow 4.9 percent from approximately \$50,000 to \$52,500 from calendar year 2010 to 2015 (San Diego Association of Governments).
- The County of San Diego consumer price index (CPI) increased 3.4 percent in the first half of calendar year 2011 (United States Bureau of Labor Statistics).

Despite the increases in sales and transient occupancy tax, there is uncertainty as to the pace at which the local economy will fully recover due to the slow recovery of the local housing market. The City will continually monitor economic information and revenue distribution amounts throughout Fiscal Year 2013 and adjust forecasted revenue levels as necessary.

General Fund Revenues

Property Tax

Background

Property tax revenue is the City's largest revenue source, representing 33.9 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property's value may increase or decrease at the rate of the California Consumer Price Index, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value.

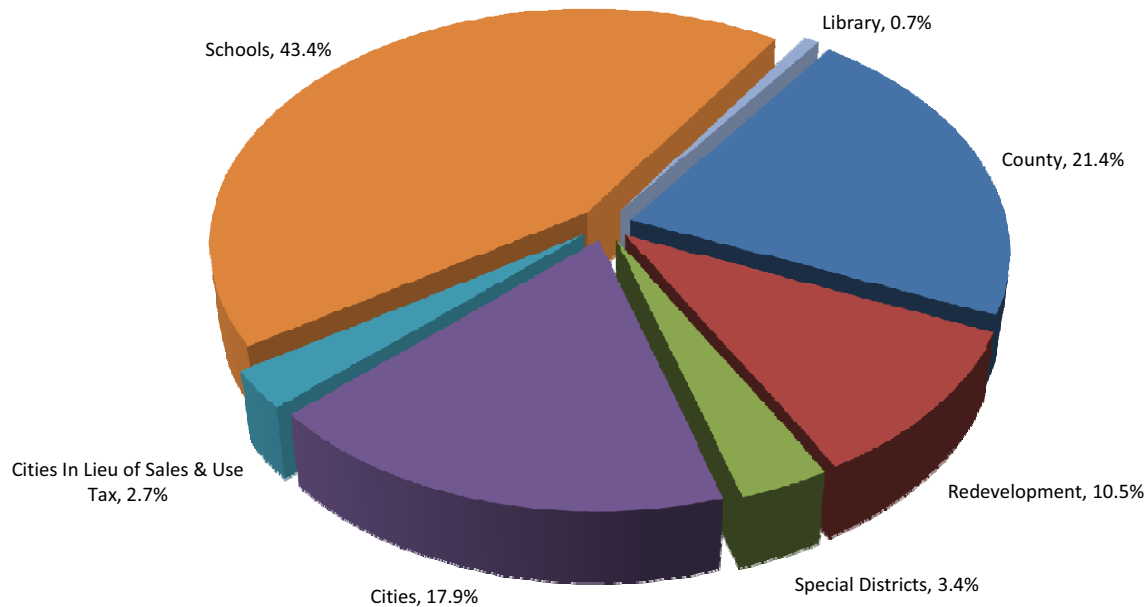
Total City Budget
\$412.1 million

General Fund Budget
\$389.1 million

Percent of General Fund
33.9 percent

The 1.0 percent property tax levy is collected and distributed to a number of agencies, including the County, the City, school districts, and special districts. For every \$100 collected, the allocation to the cities in San Diego County total \$17.90 (with an additional \$2.70 going to cities for the sales tax "triple-flip" outlined in the sales tax section), which includes offsets for Motor Vehicle License Fees, according to the County of San Diego Assessor's Office. Property tax revenue is also collected in other (non-General) funds per City Charter requirement. Those include a special tax levy of \$0.005 per \$100 of assessed value for funding zoological exhibits in Balboa Park.

Figure 4: Fiscal Year 2012 Countywide Property Tax Distribution



Source: County of San Diego Assessor's Office

Since the early 1990s, many factors have contributed to changes in the amount of revenue the City has received from property tax:

- In Fiscal Year 1993, the State of California faced a serious deficit and, in order to meet its obligations to fund school districts at specified levels under Proposition 98, the State enacted

General Fund Revenues

legislation that shifted partial financial responsibility for funding education to local governments. These revenue shifts were otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts.

- The State authorized counties to charge cities an administrative fee in order to collect and distribute property tax, further reducing the City's annual property tax receipts. For Fiscal Year 2013, the administration fee for the City is estimated to be \$5.1 million.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) rate was reduced from 2.0 percent to 0.65 percent resulting in less revenue received by the City, which was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.

Economic Trends

The economic recession that began late in calendar year 2007, had a significant negative impact on median home prices, home sales, and foreclosures leading to a decline in property tax revenue. However, improvement in the foreclosure rate and the number of notices of default is beginning to take place.¹ Countywide foreclosures for calendar year 2011 totaled 12,216, a decline of 9.3 percent from 13,466 in calendar year 2010. Notices of default totaled 22,101 for the same time period, a decline of 11.0 percent from 24,835, indicating that future foreclosure levels will potentially be lower and increase property tax revenue collection rates.² Although foreclosures and notices of default have improved, the median countywide home price as of December 2011 was \$325,718 which is a decrease of 4.8 percent from the December 2010 median home price of \$342,258.³ It is anticipated that median home prices in San Diego will begin to stabilize during Fiscal Year 2013 as the number of foreclosed properties continues to decrease.

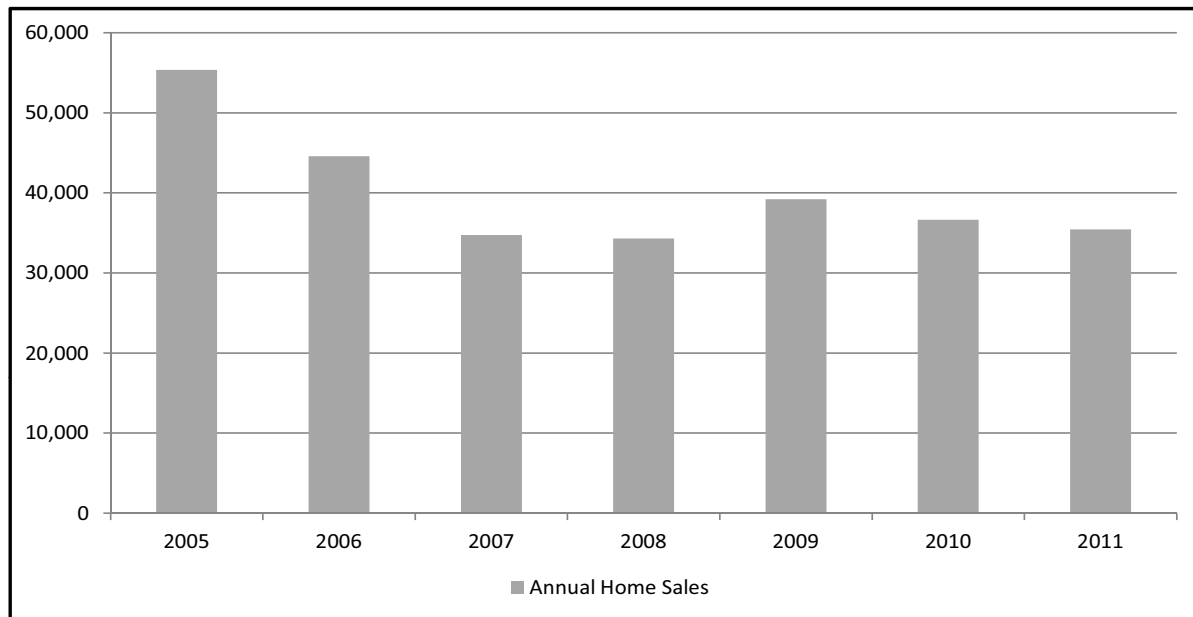
¹ California Department of Industrial Relations, Consumer Price Index.

² County of San Diego Assessor's Office.

³ DataQuick Information Systems.

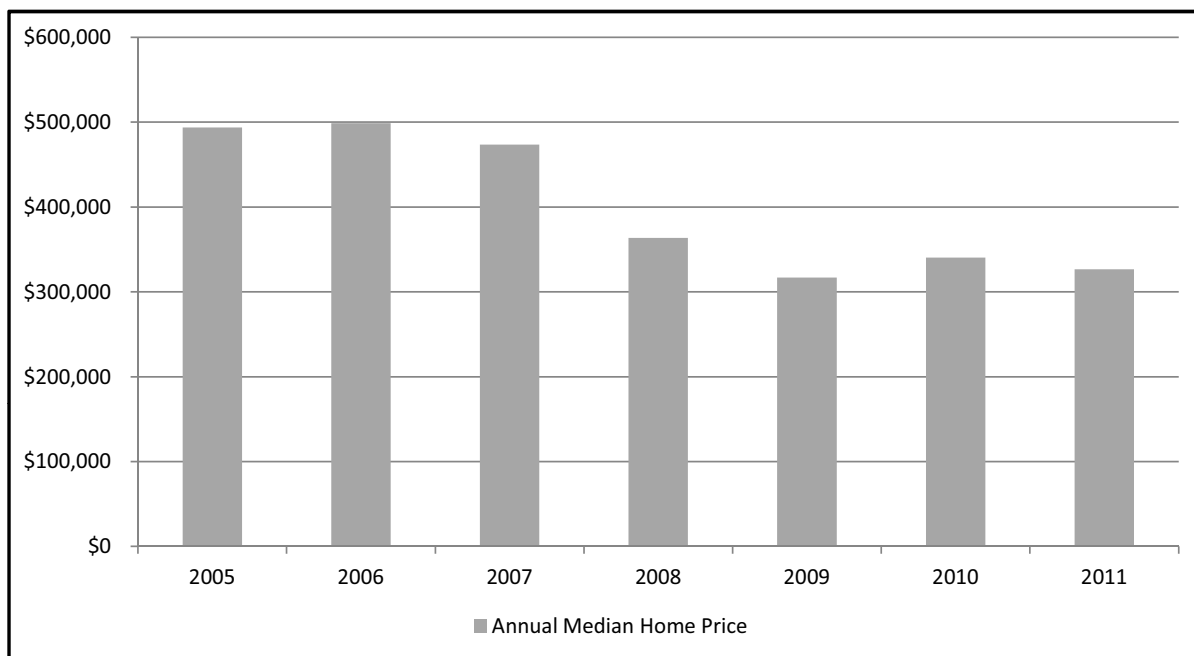
General Fund Revenues

Figure 5: San Diego County Home Sales (calendar year)



Source: DataQuick Information Systems

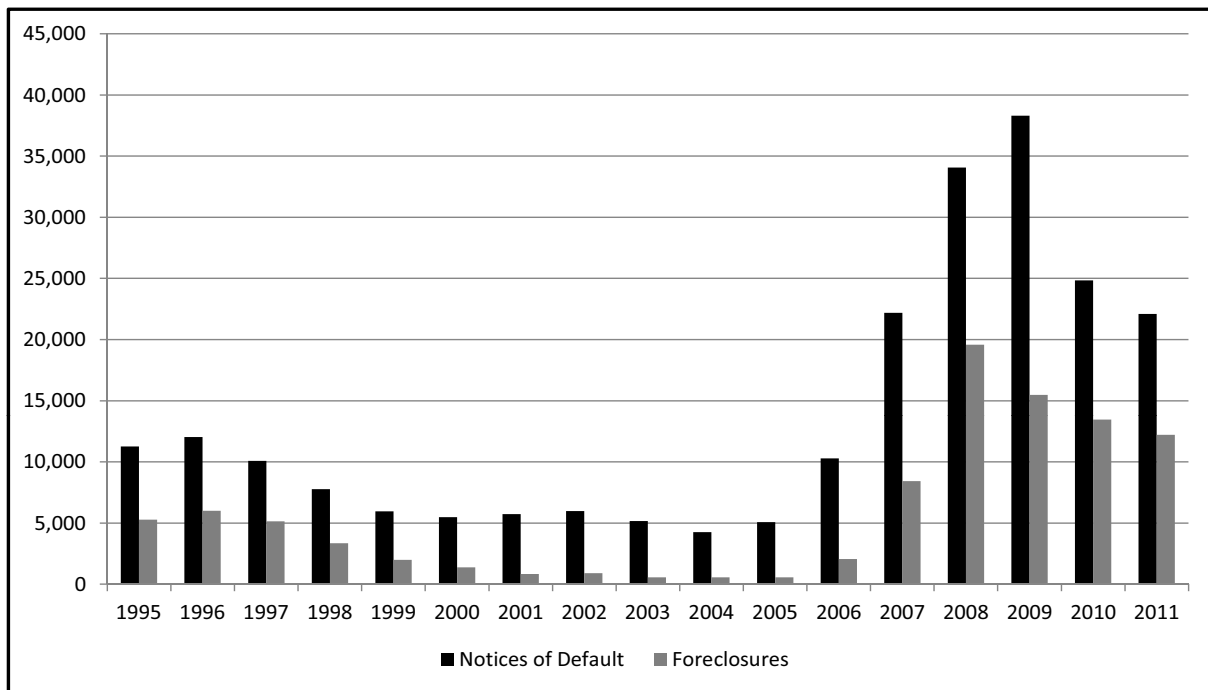
Figure 6: San Diego County Annual Median Home Price (calendar year)



Source: DataQuick Information Systems

General Fund Revenues

Figure 7: San Diego Home Foreclosures (calendar year)



Source: San Diego County Assessor/Recorder/County Clerk

In addition to the local residential market beginning to stabilize, the local commercial real estate market has shown some improvement. According to CB Richard Ellis, the overall vacancy rate during the second quarter of Fiscal Year 2012 showed improvement in two of three of the commercial real estate markets over the same period last year. The vacancy rates in the industrial and office markets declined 0.3 percent to 10.7 percent and 2.5 percent to 16.6 percent, respectively. An increase in the vacancy rate of 6.8 percent to 7.4 percent was seen in the retail market.

High unemployment levels are forecasted to continue for the region, hindering the improvement in the local real estate market. As of February 2012, San Diego's unemployment rate improved to 9.3 percent, a decline of 1.8 percent from the January 2010 high of 11.1 percent but still above the national unemployment rate of 8.3 percent. The State of California's unemployment rate was 10.9 percent as of December 2011 and is expected to remain in double-digits through calendar year 2013.¹

Fiscal Year 2013 Proposed Budget

While the local residential housing market has experienced slight increases in home sales in Fiscal Year 2012, this does not greatly impact the growth rate for the Fiscal Year 2013 Proposed Budget due to a lag between the time assessed valuation is set by the County Assessor's Office (reflecting the entire calendar year) and property tax revenue is received by the City. Property tax is a lagging revenue source and, therefore, does not depict recent market activity. Stabilization in home sales, notices of defaults and foreclosures experienced in 2011 may provide for additional growth in upcoming fiscal years from the negative impacts of the recession that began in December 2007.

¹ UCLA Anderson Forecast, December 2011.

General Fund Revenues

The Fiscal Year 2013 proposed property tax budget of \$389.1 million assumes a 0.5 percent growth over the Fiscal Year 2012 year-end projection. The \$389.1 million property tax budget consists of \$284.0 million in base property tax (Proposition 13) and an estimated "in-lieu of motor vehicle license fee" payment of \$105.0 million. The 0.5 percent growth is a conservative estimate based on the County Assessor's Office 0.65 percent increase in assessed valuation (AV) for the City for Fiscal Year 2012. Improvement and stabilization in numerous economic indicators discussed previously further support the applying of growth to property tax for Fiscal Year 2013.

Table 3: Fiscal Year 2013 Proposed Property Tax Budget

(in millions)		
Base Property Tax	\$	284.1
Property Tax "In-Lieu" of MVLF		105.0
Total Property Tax	\$	389.1

Sales Tax

Background

Sales tax is the City's second largest General Fund revenue source, representing 20.4 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in monthly payments. According to the Bradley-Burns Sales and Use Tax law, the City is to receive one cent of the total Statewide sales tax levied on each dollar of taxable sales.

**Total City Budget
\$261.6 million**

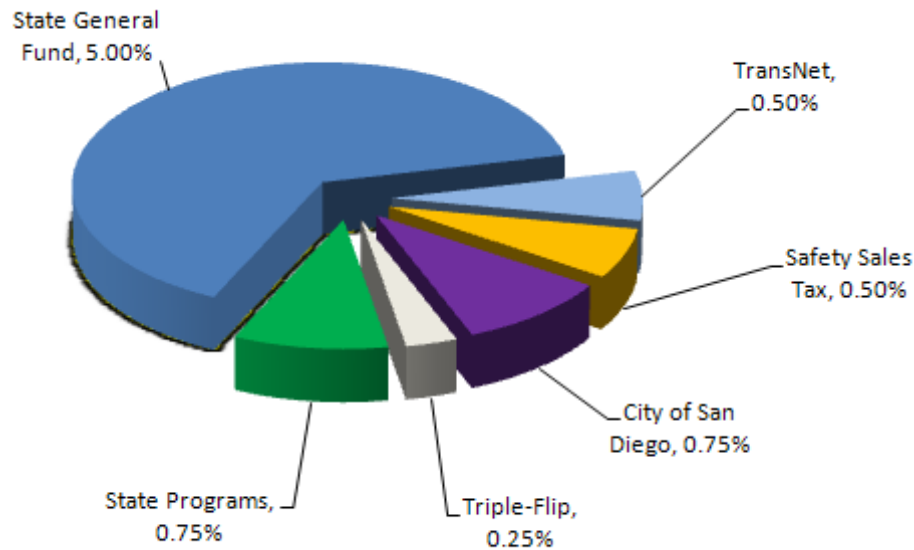
**General Fund Budget
\$234.4 million**

**Percent of General Fund
20.4 percent**

The total citywide sales tax rate in San Diego is 7.75 percent and includes two voter approved half-cent supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet), and safety sales tax. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section.

General Fund Revenues

Figure 8: City of San Diego Sales Tax Rate (7.75 percent)



Source: State Board of Equalization

Economic Trends

The City of San Diego saw a steady increase in sales tax revenue throughout Fiscal Year 2011 and this has continued through the first two quarters of Fiscal Year 2012, in all economic sectors. As shown in Table 6: City of San Diego Calendar Year Sales Tax Revenue, moderate growth was reported in the general retail, food products, transportation, business to business, and construction sectors.

Table 4: City of San Diego Calendar Year Sales Tax Revenue (in millions)

Economic Category	1Qtr - 3Qtr Calendar Year 2010	1Qtr - 3Qtr Calendar Year 2011	% Change
General Retail	\$ 40.5	\$ 42.6	5.3%
Food Products	\$ 30.7	\$ 32.0	4.2%
Transportation	\$ 25.9	\$ 30.0	15.7%
Business to Business	\$ 22.4	\$ 24.9	10.9%
Construction	\$ 9.6	\$ 10.3	7.5%

Source: MuniServices, LLC

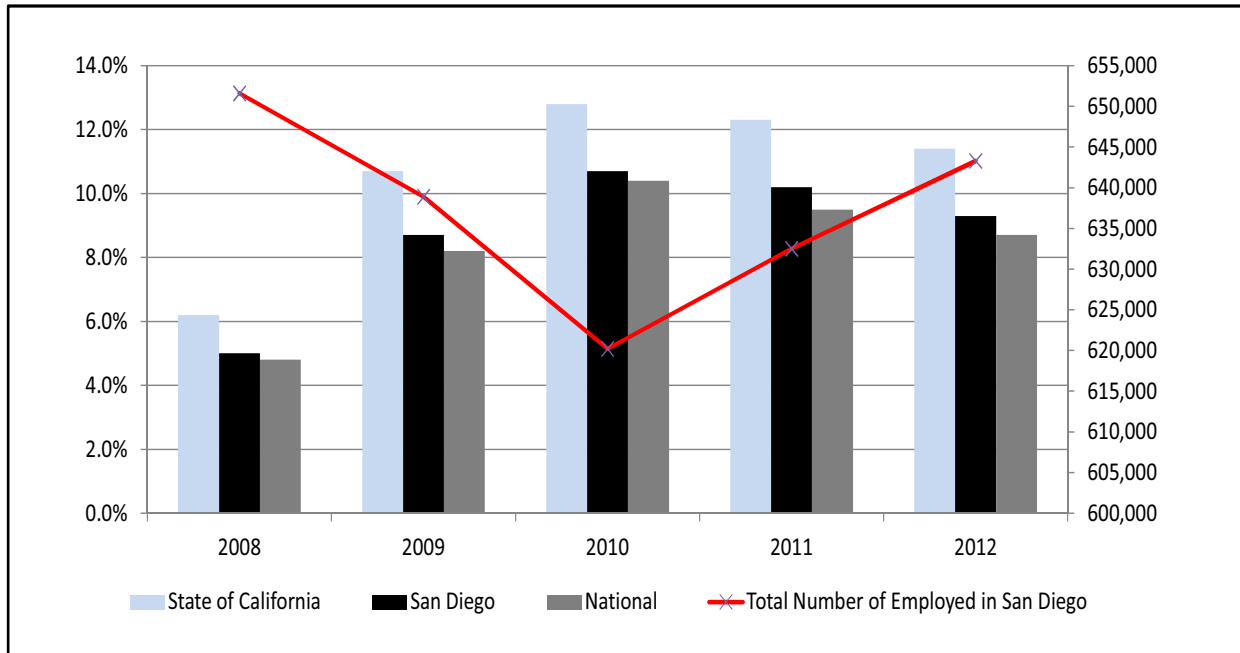
The City's sales tax consultant, MuniServices, LLC (MuniServices), indicated consumer spending jumped from the previous quarters helping to stimulate the economy resulting in moderate growth for the third quarter of the calendar year, thus continuing a favorable balance of sales tax receipts above projected revenue amounts. It is projected that current consumer spending trends will continue into Fiscal Year 2013 with taxable sales increasing in the areas of department store retail, automobile sales, and service stations.

According to the most recent (December 2011) forecast from the State Board of Equalization, State-wide taxable sales are forecasted to have an average growth of 9.1 percent in the remaining quarters of Fiscal Year 2012. Although the State is projecting robust growth for the remainder of

General Fund Revenues

Fiscal Year 2012, the City is forecasting a 5.0 percent growth rate for Fiscal Year 2013 due to relatively high unemployment rate levels and other uncertainties in the local economy, such as increasing fuel prices. In December 2011, the California Employment Development Department reported San Diego's unemployment rate at 9.3 percent and the State of California's unemployment rate at 11.4 percent, as shown in **Figure 9: Unemployment Rates**. With unemployment rates for both the City of San Diego and the State of California still above the national unemployment rate of 8.7 percent, a 5.0 percent growth rate for sales tax is being used for the Fiscal Year 2013 Proposed Budget.

Figure 9: Unemployment Rates (as of February 2012)



Source: State of California, Employment Development Department

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 proposed sales tax budget of \$234.4 million is based on the Fiscal Year 2012 year-end projection and assumes 5.0 percent growth for Fiscal Year 2013. The Fiscal Year 2013 Proposed Budget for sales tax revenue also includes the property tax reimbursement that the City receives as a result of the triple-flip (triple-flip is the shift enacted by the State in Fiscal Year 2005 whereby local governments were required to shift one-quarter of one cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax). Once the State's Economic Recovery Bonds are paid off, local governments will no longer receive the property tax reimbursement, but will instead regain the quarter-cent sales tax that was diverted to the State by the triple-flip. The State's Economic Recovery Bonds are expected to be paid in full in 2023 unless retired prior to maturity.

General Fund Revenues

Table 5: Fiscal Year 2013 Proposed Sales Tax Budget

	(in millions)	
Sales Tax Revenue	\$	174.1
Triple Flip Property Tax Reimbursement		60.4
Total Sales Tax¹	\$	234.4

¹ Numbers may not add due to rounding.

As a destination city for visitors and tourists around the globe, San Diego has historically been economically stronger than the State of California in aggregate. However, economic recovery has been slow and tentative State-wide, with adverse affects of the recession still apparent in California's cities. In order to continue to generate increased sales tax revenues in the future there must be an improvement in job growth which in turn will stabilize the local real estate market, increase the median income and boost consumer confidence.

Safety Sales Taxes

Background

Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Safety sales tax revenues are used to support local public safety needs. The State Board of Equalization collects the one-half cent and the State Controller's Office allocates the monies to each county based on its proportionate share of statewide taxable sales. In accordance to California Government Code, the City of San Diego receives 3.2 percent from the San Diego County's Public Safety Augmentation Fund on a monthly basis.

**Total City Budget
\$7.8 million**

**General Fund Budget
\$0.0 million**

**Percent of General Fund
0.0 percent**

The Public Safety Needs and Debt Service Fund was created in Fiscal Year 2012 as a special revenue fund with the purpose of tracking expenditures for public safety needs. Debt service for the Fire and Lifeguard Facilities Fund will be paid first from this fund and the remainder will be distributed equally between the Police and Fire-Rescue Departments.

Economic Trends

Safety sales tax receipts generally follow the same economic trends that determine sales tax receipts such as per capita income levels, employment rates, consumer savings, and discretionary spending. However, safety sales tax revenue also depends on the County's share of total statewide taxable sales and allocations to the City do not entirely depend on taxable sales within the City.

Fiscal Year 2013 Proposed Budget

Safety sales tax revenue is budgeted and collected in the special revenue fund, Public Safety Needs and Debt Service. The Fiscal Year 2013 proposed safety sales tax budget of \$7.8 million is based on the Fiscal Year 2012 year-end projection and assumes 5.0 percent growth for Fiscal Year 2013. In Fiscal Year 2013, approximately \$1.6 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining \$6.2 million amount will be equally distributed between Police and Fire-Rescue Departments' budgets to support public safety needs.

General Fund Revenues

General Fund Transient Occupancy Tax (TOT)

Background

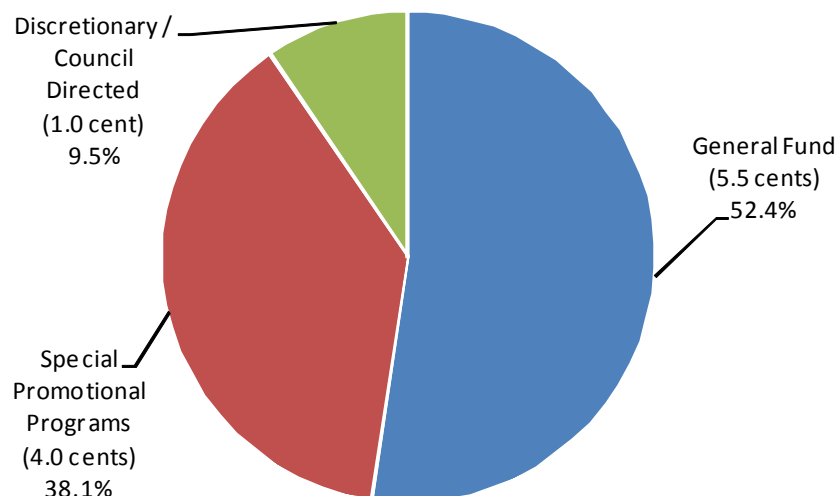
Transient occupancy tax (TOT) makes up 7.0 percent of the General Fund revenue budget and is levied at 10.5 cents per dollar of the daily room price of hotels and motels used by visitors staying in San Diego for less than 30 consecutive days. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents shall be applied toward general government purposes, 4.0 cents shall be applied toward promoting the City as a tourist destination, and the remaining 1.0 cent shall be allocated for any purposes approved by the City Council.

Total City Budget
\$153.6 million

General Fund Budget
\$80.5 million

Percent of General Fund
7.0 percent

Figure 10: City of San Diego Transient Occupancy Tax Allocation



Economic Trends

Locally, tourism performed well in calendar year 2011 and this is expected to continue through calendar years 2012 and 2013, according to the December 2011 Quarterly Travel Forecast from the San Diego Convention and Visitors Bureau (CONVIS). Overall, visitor growth in the San Diego region during calendar years 2012 and 2013 is projected at 2.2 percent and 2.2 percent, respectively, with overnight visitor growth of 1.1 percent and 1.0 percent during the same periods. Growth in room demand is projected to be 1.9 percent and 1.5 percent for calendar years 2012 and 2013, respectively. Very little expansion in room supply occurred during the years of decline in tourism growth. As a result, the average daily rate of hotel rooms is expected to continue to improve with positive growth in room demand and only a slight increase in the room supply. The average daily rate (ADR) is expected to reach \$128.22 for calendar year 2012, a 3.1 percent increase over calendar year 2011, and \$133.19 in calendar year 2013, an increase of 3.9 percent over calendar year 2012 projections. The overall hotel occupancy rate is anticipated to increase to 69.2 percent in calendar year 2012, from 68.5 percent in calendar year 2011 equivalent to the rate in 2008, before the start of the economic recession. Total occupancy is also projected to increase to 69.8 percent in calendar year 2013.¹

¹ CONVIS Quarterly Travel Forecast, December 2011.

General Fund Revenues

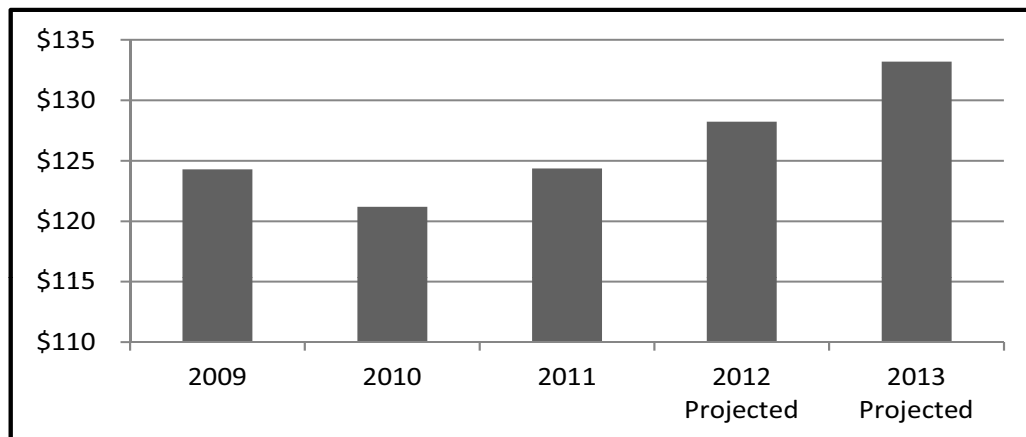
Table 8 illustrates hotel performance in San Diego since calendar year 2009 and projections for calendar years 2012 and 2013.

Table 6: 2009 - 2013 San Diego County Tourism

	CY 2009	CY 2010	CY 2011	Projected CY 2012	Projected CY 2013	% Change '08-'09	% Change '09-'10	% Change '10-'11	Projected % Change '11-'12	Projected % Change '12-'13
Total Visitors (in millions)	29.6	29.6	30.8	31.5	32.1	-4.8%	0.9%	3.0%	2.2%	2.2%
Overnight (in millions)	14.4	15.1	15.6	15.8	15.9	-4.8%	4.5%	3.5%	1.1%	1.0%
Day (in millions)	15.2	14.8	15.2	15.7	16.2	-4.8%	-2.5%	2.6%	3.3%	3.3%
Room Supply	20.9	21.2	21.2	21.4	21.5	3.7%	1.2%	0.3%	0.9%	0.6%
Room Demand	13.1	14.1	14.5	14.8	15.0	-5.8%	7.0%	3.4%	1.9%	1.5%
Average Occupancy	62.8%	66.4%	68.5%	69.2%	69.8%	-9.2%	5.7%	3.1%	1.0%	0.9%
Average Daily Rate	\$ 124.3	\$ 121.2	\$ 124.4	\$ 128.2	\$ 133.2	-12.4%	-2.5%	2.6%	3.1%	3.9%

Source: CONVIS Quarterly Travel Forecast, December 2011

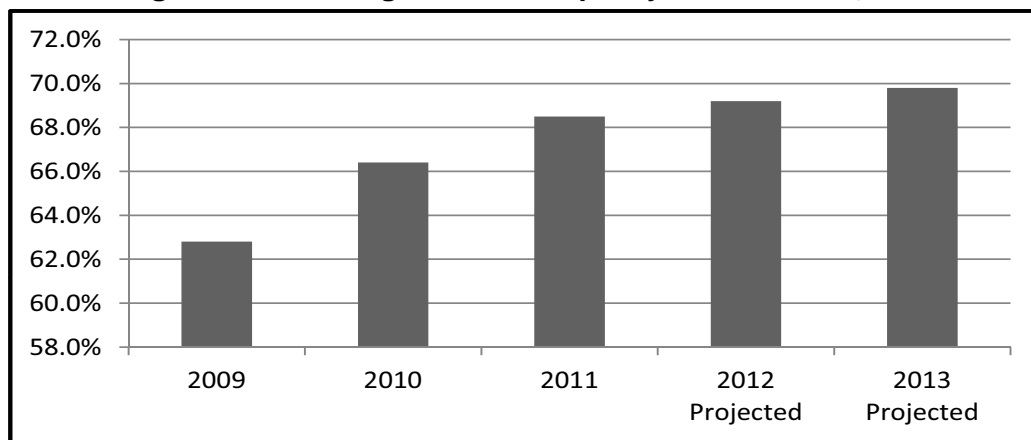
Figure 11: San Diego Hotel Average Daily Rate (calendar year)



Source: CONVIS Quarterly Travel Forecast, December 2011

General Fund Revenues

Figure 12: San Diego Hotel Occupancy Rate (calendar year)



Source: CONVIS Quarterly Travel Forecast, December 2011

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 total proposed transient occupancy tax budget for the City of San Diego is \$153.6 million, which incorporates a 5.0 percent growth rate over the Fiscal Year 2012 year-end projection. Of the \$153.6 million, \$80.5 million will be allocated to the General Fund. The remaining funds are allocated to Special Promotional Programs, which includes the one-cent Council discretionary TOT funding budgeted to be transferred to the General Fund and TOT allocated for reimbursement of General Fund tourism related expenditures.

The TOT revenue estimate for Fiscal Year 2013 is based on the growth in receipts experienced over the past two calendar years. Growth in tourism activity is expected to continue through the remainder of calendar year 2012 and into 2013.

Property Transfer Tax

Background

Property transfer tax makes up 0.6 percent of the General Fund revenue budget and is levied on the sale of real property. The County of San Diego collects \$1.10 per \$1,000 of the sale price when any real property is sold. The City is credited \$0.55 per \$1,000 against the County's charge, giving both the County and City each \$0.55 per \$1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City on a monthly basis.

Total City Budget
\$6.4 million

General Fund Budget
\$6.4 million

Percent of General Fund
0.6 percent

General Fund Revenues

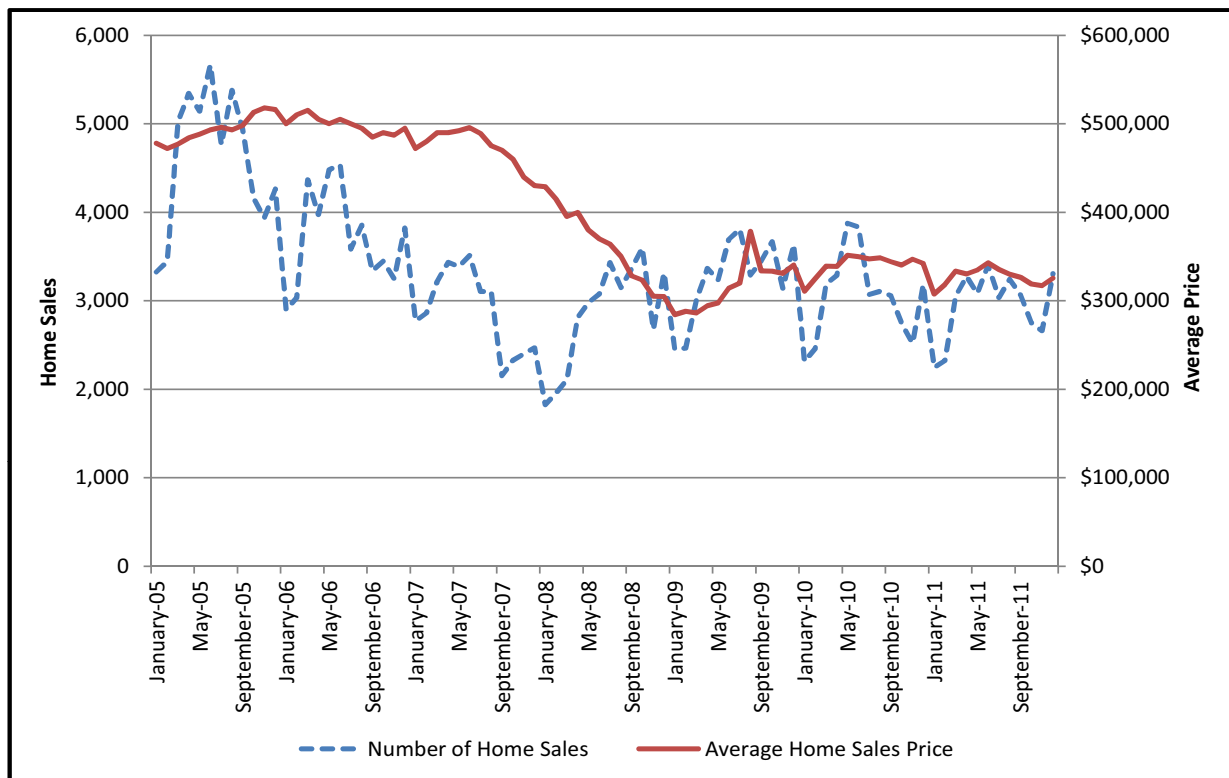
Economic Trends

The Fiscal Year 2013 proposed property transfer tax budget reflects the market conditions and trends as of December 2011. Countywide foreclosures totaled 12,216 for calendar year 2011, which is a decline of 9.3 percent from the calendar year 2010 total of 13,466. Notices of default, an indicator of potential future foreclosure levels, totaled 22,101 for calendar year 2011, a decline of 11.0 percent from the calendar year 2010 total of 24,835.¹ San Diego County recorded a total of 3,183 home sales in December 2011, an increase of 3.9 percent from the December 2010 home sales total of 3,306. The median countywide home price as of December 2011 was \$325,718 which is a decrease of 4.8 percent from the December 2010 median home price of \$342,258.² It is anticipated that median home prices in San Diego will begin to stabilize and notices of default and foreclosures will continue to decrease during Fiscal Year 2013, improving the forecast for property transfer tax revenue.

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 proposed property transfer tax budget of \$6.4 million is based on the Fiscal Year 2012 year-end projection and assumes 7.0 percent growth for Fiscal Year 2013. The positive growth rate is based on continued decreases in local notices of default and foreclosures and anticipated growth in home sales.

Figure 13: San Diego County Home Sales



Source: DataQuick Information Systems

¹ San Diego County Assessor/Recorder/County Clerk

² DataQuick Information Systems.

General Fund Revenues

Franchise Fees

Background

Franchise fee revenue makes up 6.2 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the franchises that pay the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within its borders. The revenue received from the above agreements is based on a percentage of gross sales.

Total City Budget
\$133.2 million

General Fund Budget
\$71.7 million

Percent of General Fund
6.2 percent

SDG&E, the single largest generator of franchise fee revenue in the General Fund, remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego, which is split between the General Fund (75.0 percent) and the Environmental Growth Fund (25.0 percent), according to the City Charter. In addition, the City receives a 3.5 percent surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines that was approved by the California Public Utilities Commission in December 2002 (this revenue is placed in a special revenue fund). The City also generates revenue by collecting 5.0 percent of gross revenues from Cox Communications, Time Warner Cable, and AT&T.

Refuse hauler fees are imposed on private refuse haulers depending on tonnage per year. There are Class I haulers (less than or equal to 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

Fiscal Year 2013 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2013 Proposed Budget for SDG&E franchise fee revenue of \$50.3 million is based on the Fiscal Year 2012 year-end projection of actual receipts and assumes a 2.0 percent growth rate for Fiscal Year 2013.

In accordance with the City Charter, 25.0 percent of revenue received from SDG&E or \$12.6 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. The remaining revenue balance of approximately \$37.7 million received from SDG&E franchise fees is allocated to the General Fund.

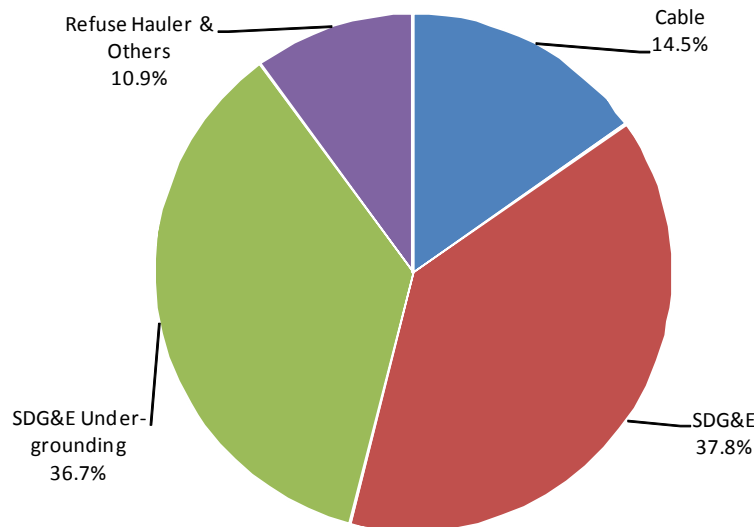
CABLE COMPANIES. The Fiscal Year 2013 Proposed Budget for cable franchise fee revenue of \$19.4 million is based on the Fiscal Year 2012 year-end revenue projection and assumes a 4.0 percent growth rate for Fiscal Year 2013.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2013 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers is \$10.0 million, an increase of \$650,000 over the Fiscal Year 2012 year-end revenue projection. The increase in Fiscal Year 2013 is due to a projected increase in refuse tonnage. The City also anticipates an additional \$2.9 million in franchise fees from the EDCO and Sycamore Landfill facilities, \$1.6 million in new revenue related to the Police Department tow program, and \$155,000 from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2013 Proposed Budget for SDG&E undergrounding utility fee revenue of \$48.9 million is based on the current Fiscal Year 2012 revenue projection and assumes a 2.0 percent growth rate for Fiscal Year 2013. This revenue is budgeted in the Underground Surcharge Fund.

General Fund Revenues

Figure 14: Franchise Fee Revenue Breakdown



Licenses and Permits

Background

The Licenses and Permits revenue category includes revenue for the purpose of recovering costs associated with regulating an activity and other revenues such as business license taxes, rental unit taxes, parking meter collections, and alarm permit fees.

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for licenses and permits is \$31.9 million or 2.8 percent of the General Fund revenue budget. The proposed budget is also \$3.4 million or 9.5 percent less than the Fiscal Year 2012 Adopted Budget. The decrease in revenue is mainly due to a \$4.0 million re-categorization of Fire Miscellaneous Fees revenue, a \$0.6 million reduction to Parking Meter Collections related to delays in implementing the Parking Meter Utilization Plan, a \$0.4 million revenue re-categorization related to Towing Referral Fees, and a \$53,000 revenue reduction related to the Federal Aviation Administration's (FAA) ruling on the proposed Air Medical Billing Fee.

These decreases in revenue are offset by a \$0.5 million increase in Rental Unit Tax revenue related to an increase in the number of rental properties available for rent and the implementation of the new Rental Unit Business Tax system; and a \$0.3 million increase in Business Tax revenue related to an anticipated increase in late penalty and non-compliant surcharge revenue. The new Rental Unit Business Tax system will provide the City with weekly updates of new rental property owners. A current list of rental property owners will allow the City to collect additional Rental Unit Tax revenue. The decrease in revenue is also offset by a \$1.0 million increase in proposed adjustments to Development Services department's user fees for Fiscal Year 2013. The proposed user fee adjustments will be presented for City Council approval in May 2012.

**Total City Budget
\$56.0 million**

**General Fund Budget
\$31.9 million**

**Percent of General Fund
2.8 percent**

General Fund Revenues

Fines, Forfeitures, and Penalties

Background

The Fines, Forfeitures, and Penalties revenue category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, red light photo enforcement, collection referrals, and litigation awards.

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for fines, forfeitures, and penalties revenue is \$31.1 million or 2.7 percent of the General Fund revenue budget. The proposed budget is also \$6.6 million or 17.5 percent less than the Fiscal Year 2012 Adopted Budget.

The decrease in the Fiscal Year 2013 Proposed Budget for fines, forfeitures, and penalties is primarily due to a \$3.5 million overall reduction in parking citation revenue. This net reduction is the result of a \$5.9 million decrease in citation revenue collected by the Police department and an increase of \$2.4 million collected by the Transportation and Storm Water department. The decrease in citation revenue is attributed to a combination offenders not paying fines and the over budgeting of parking citation revenue while the number of citations have decreased. Departmental revenues have been adjusted accordingly for the Fiscal Year 2013 Proposed Budget.

Additionally, the decrease in the Fiscal Year 2013 Proposed Budget for fines, forfeitures and penalties is attributed to a \$2.8 million reduction and redistribution of revenue to the charges for services category as a result of the discontinuation of the Negligent Impound Fee and the overhaul of the City's towing program. There was also a \$271,000 reduction of one-time revenue in Vehicle Code Violations in the Police Department.

Revenue from Money and Property

Rents and Concessions

The rents and concessions category includes revenue generated from Mission Bay Park, Balboa Park, and Torrey Pines Golf Course. The largest component of this category is revenue from Mission Bay Park rents and concessions, the majority of which is generated from leases with Sea World, the Marina Village, and the hotels and marinas within Mission Bay Park. Another significant contributing component in the Rents and Concessions category is revenue from leases for City Pueblo lands.

The threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for use in any municipal purpose without restriction is set by the City Charter at \$23.0 million. This threshold amount will remain at the same level until Fiscal Year 2015, at which time it will be reduced to \$20.0 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvement Fund and the Mission Bay Park Improvement Fund. The San Diego Regional Park Improvement Fund is to receive 25.0 percent of revenues in excess of the threshold amount or \$2.5 million, whichever is greater, with 75.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

Total City Budget
\$31.6 million

General Fund Budget
\$31.1 million

Percent of General Fund
2.7 percent

Total City Budget
\$60.7 million

General Fund Budget
\$41.2 million

Percent of General Fund
3.6 percent

General Fund Revenues

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for rents and concessions revenue is \$41.2 million or 3.6 percent of the General Fund revenue budget. This represents a \$2.1 million or 5.2 percent increase from the Fiscal Year 2012 Adopted Budget. This increase is primarily attributable to rents and concessions from the Mission Bay Park, Belmont Park, and other properties of \$1.8 million.

Mission Bay Park rents and concessions are projected to generate \$26 million in Fiscal Year 2013, as compared to the Fiscal Year 2012 Adopted Budget of \$25.3 million, which is an increase of \$0.7 million. In Fiscal Year 2013, pursuant to the City Charter, the excess above the threshold will be budgeted in the San Diego Regional Park Fund and Mission Bay Park Improvement Fund in the amounts of \$2.5 million and \$0.5 million, respectively.

Interest Earnings

Background

In accordance with the City Charter and authority granted by the City Council, the City Treasurer is responsible for investing the City's cash assets, exclusive of City Pension Trust Funds. With the exception of certain bond funds, all City funds are pooled and invested together in a Pooled Investment Fund ("Fund") to manage the City's cash flow requirements. Fund investments must comply with the City Treasurer's Investment Policy and the State of California Government Code guidelines and restrictions. The maximum maturity of any investment may not exceed five years. Selection of an investment is based on safety, liquidity, risk, interest rate environment, and the cash flow requirements of the City. Deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested during the fiscal year. Past interest earnings performance is no guarantee or indicator of future results.

Interest Earnings Trends

Interest rates have remained historically low since the financial crisis of 2008. The federal funds rate has remained at a target of 0.00 to 0.25 percent during the entire period even as economic activity has been through several stops and starts. While the strains in the credit markets have eased, recent economic figures have been showing signs of weakness and there is increased concern that the global sovereign debt crisis and tough fiscal austerity measures may lead to another global recession. Federal Open Market Committee (FOMC) has stated that conditions "are likely to warrant exceptionally low levels of the federal funds rate at least through mid Fiscal Year 2013."

Interest Earnings Outlook

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historic lows through the end of Fiscal Year 2013. The result will be continued low interest earnings for Fiscal Year 2012 and most likely beyond. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, resulting in outcomes different from our outlook.

General Fund Revenues

Revenue from Other Agencies

Motor Vehicle License Fees

Background

Motor vehicle license fees (MVLFF) are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles as part of the owner's registration.

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget does not include a budget for motor vehicle license fees due to the elimination of MVLFF allocations to cities as the result of the adoption of State Bill 89. The revenue previously allocated to cities will be redirected to fund State public safety grants.

Total City Budget
\$0.0 million

General Fund Budget
\$0.0 million

Percent of General Fund
0.0 percent

Revenue from Federal & Other Agencies

Background

Revenues from federal and other agencies include federal grants and reimbursements for City services such as court crime lab revenue, urban search and rescue, service level agreements, and unbudgeted cost reimbursements.

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for revenue from federal and other agencies is \$3.5 million or 0.3 percent of the General Fund revenue budget. This represents an approximate \$0.9 million or 36.5 percent increase from the Fiscal Year 2012 Adopted Budget. The revenue increase from the Fiscal Year 2012 Adopted Budget to the Fiscal Year 2013 Proposed Budget is primarily attributable to the re-categorization of some revenues that were previously budgeted in the charges for current services category.

Total City Budget
\$64.5 million

General Fund Budget
\$3.5 million

Percent of General Fund
0.3 percent

Charges for Current Services

Background

Charges for current services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-General Fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Total City Budget
\$1,175.3 million

General Fund Budget
\$180.4 million

Percent of General Fund
15.7 percent

General Fund Revenues

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for charges for current services revenue is \$180.4 million or 15.7 percent of the General Fund revenue budget. This represents a net increase of \$22.6 million or 14.3 percent from the Fiscal Year 2012 Adopted Budget.

The increase of \$22.6 million from the Fiscal Year 2012 Adopted Budget to the Fiscal Year 2013 Proposed Budget is primarily attributable to the re-categorization of \$19.5 million that was previously budgeted in the other financial sources & uses category to more accurately account for reimbursements to the Public Works – Engineering and Capital Projects Department for services rendered to non-General Fund departments; the re-categorization of \$3.3 million that was previously budgeted in the licenses & permits and fines, forfeitures, & penalties categories for towing fees in the Police Department; and an increase of \$2.6 million in general governmental services billing revenue.

Other Financial Sources & Uses

Background

The Other Financial Sources & Uses revenue category includes revenues received by the General Fund from other non-General Fund City funds such as the transient occupancy tax (TOT) 1.0 cent transfer, fees from street and urban forestry maintenance, and Storm Water permit fees.

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for other financial sources & uses is \$71.7 million or 6.3 percent of the General Fund revenue budget. This represents an approximate \$29.2 million or 28.9 percent decrease from the Fiscal Year 2012 Adopted Budget.

Within the other financial sources and uses category, there is a decrease of \$70.6 million from the Fiscal Year 2012 Adopted budget due to the re-categorization of revenues from the Transfers-In revenue category. This includes a decrease of \$35.3 million in transfers from other funds, the re-categorization of \$19.5 million to the charges for current services revenue category to more accurately account for reimbursement of engineering services provided to capital projects, \$11.8 million in gas tax revenue was eliminated as a one-time revenue which had been re-budgeted in FY 2012 from FY 2011, while the remaining \$4.0 million is due to a projected reduction in revenue.

Offsetting the decrease in revenue within the other financial sources and uses category, is an increase of \$41.4 million, consisting of \$14.4 million in one cent transient occupancy tax transfer to the General Fund, \$10.1 million in Employee Offset Savings (EOS) to replace tobacco securitized revenue, \$6.2 million in transfers to the Police and Fire-Rescue Departments from the Public Safety Needs & Debt Service fund, \$3.7 million related to Centre City Development Corporation funds, \$2.3 million from Golf Enterprise transfers to the General Fund, \$2.3 million in Office of Homeland Security Recovery monies, and other miscellaneous revenue adjustments and transfers.

**Total City Budget
\$152.7 million**

**General Fund Budget
\$71.7 million**

**Percent of General Fund
6.3 percent**

General Fund Revenues

Other Revenue

Fiscal Year 2013 Proposed Budget

The Fiscal Year 2013 Proposed Budget for other revenue is \$3.8 million or 0.3 percent of the General Fund revenue budget. This represents an approximate \$1.0 million or a 36.1 percent increase from the Fiscal Year 2012 Adopted Budget. Other revenue is mainly composed of ambulance fuel reimbursements, refunds of Supplemental Pension Savings Plan forfeitures, refuse disposal reimbursements, and other miscellaneous revenues. The increase in revenue is mainly attributable to an increase in corporate sponsorships and library donations.

Total City Budget \$47.7 million
General Fund Budget \$3.8 million
Percent of General Fund 0.3 percent

Annual Tax Appropriation Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (Gann Initiative) and added Article XIII B to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIII B. This legislation required the governing body of each local jurisdiction in California to establish an Annual Tax Appropriations Limit (Gann Limit) on or before June 30 for the following fiscal year. The Tax Appropriations Limit was based on actual appropriations during the fiscal years 1978-79, and was increased each year using the growth in population and inflation.

On June 5, 1990, California voters approved Proposition 111, amending Article XIII B. Proposition 111 allowed local jurisdictions to choose the annual adjustment factors. The adjustment factors include the growth in the California per capita income, or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city.

The Tax Appropriations Limit is applicable only to proceeds of taxes. Appropriations not subject to the limit are debt service on voter-approved debt and qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds \$100,000).

The San Diego City Council adopted a resolution in June 2011 that established the Tax Appropriations Limit for Fiscal Year 2012 at \$1,421,136,594. Using the Fiscal Year 2012 Adopted Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be \$746.8 million, which was \$674.4 million lower than the Gann Limit.

The Fiscal Year 2013 Gann Limit calculation will be presented to City Council in June 2012. Adjustment factors used for the computation are released by the California Department of Finance in late May. Therefore, the Fiscal Year 2013 Gann Limit will not be established before the release of the Fiscal Year 2013 Proposed Budget.